

Required Supplementary Information
Schedule of Funding Progress
(Expressed in Thousands)

Fiscal Year	Plan	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL (Overfunded) as a Percentage of Covered Payroll
1999	Judicial	06/30/1999	\$ 91,783	\$ 82,775	\$ (9,008)	110.9 %	\$ 13,891	(64.8)%
	State Police	06/30/1999	201,751	221,167	19,416	91.2 %	20,388	95.2 %
	Highway	06/30/1999	755,039	727,900	(27,139)	103.7 %	105,232	(25.8)%
1998	Judicial	06/30/1998	\$ 77,175	\$ 71,274	\$ (5,901)	108.3 %	\$ 13,084	(45.1)%
	State Police	06/30/1998	182,997	204,098	21,101	89.7 %	19,817	106.5 %
	Highway	06/30/1998	653,028	647,000	(6,028)	100.9 %	104,520	(5.8)%
1997	Judicial	06/30/1997	\$ 63,285	\$ 65,657	\$ 2,372	96.4 %	\$ 12,422	19.1 %
	State Police	06/30/1997	164,660	190,728	26,068	86.3 %	18,178	143.4 %
	Highway	06/30/1997	580,316	605,100	24,784	95.9 %	112,266	22.1 %

Note to Required Supplementary Information

Actuarial Assumptions - The information presented in the required supplementary information was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	Judicial	State Police	Highway
Actuarial valuation date	June 30, 1999	June 30, 1999	June 30, 1999
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percentage of Pay, Closed	Level Percentage of Pay, Closed	Level Percentage of Pay, Open
Remaining amortization period	N/A**	23 years	N/A
Asset valuation method	4 Year Smoothed Market	4 Year Smoothed Market	5 Year Smoothed Market
Actuarial assumptions:			
Inflation rate	5.00 %	4.75 %	4.50 %
Investment rate of return*	7.50 %	7.75 %	8.00 %
Projected salary increases*	5 to 7.2%	5.75 to 9.55%	5 to 11%
Post retirement benefit increases	3.00 %	3.00 %	3.00 %

*Includes assumed inflation.

**The Judicial Board of Trustees has elected to segregate excess funding amounts in a contingency reserve and to exclude these amounts in the determination of employer contribution rates. Therefore, amortization of the net pension asset of approximately \$10.5 million is not reflected in the computation of the annual required contribution.

Required Supplementary Information

Year 2000 Information (Unaudited)

The year 2000 issue arises because most computer software programs allocate two digits to the year date field on the assumption that the first two digits will be 19. Without reprogramming, such programs will interpret the year 2000 as the year 1900. Also, some programs may be unable to recognize that the year 2000 is a leap year.

The year 2000 issue may affect electronic equipment containing computer chips that have date recognition features—such as environmental systems, elevators, and vehicles—as well as computer software programs. In addition, the year 2000 issue affects not only computer applications and equipment under the State’s direct control but also the systems of the entities with which the State transacts business. Some the State’s systems/equipment affected by the year 2000 issue are critical to the continued and uninterrupted operation of State government.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the State is or will be year 2000 ready, that the State’s remediation efforts will be successful in whole or in part, or that parties with whom the State does business will be year 2000 ready.

At any given time, work to address the year 2000 issue with respect to each system deemed mission-critical (i.e., critical to conducting the State’s operations) falls predominantly within one of the following stages of work:

- (i) Awareness stage - Establishing a budget and project plan for dealing with the year 2000 issue.
- (ii) Assessment stage - Identifying the systems and components for which year 2000 work is needed.
- (iii) Remediation stage - Making changes to systems/equipment.
- (iv) Validation/testing stage - Validating and testing changes that were made during the remediation stage.

The following paragraphs summarize year 2000 stage-of-work data for the State’s mission-critical systems/equipment as of June 30, 1999.

Primary Government -

The State of Arkansas began its year 2000 work in mid 1996 with inventory, assessment and project planning work related to its mission-critical systems. The awareness and assessment phases were completed in late 1996 resulting in estimates for resources and timing. While the Department of Information Systems (“DIS”) has assumed a leadership role in the year 2000 issue, many of the duties have been contracted to outside vendors.

The estimates derived from the awareness and assessment stages were used to gain an appropriation of \$10 million from the Arkansas General Assembly in March 1997. These funds were expended and an additional \$1 million was appropriated by the General Assembly in 1999.

In April 1998 planning began for an independent review of the readiness (validation) of State agencies for the year 2000 Phase I. The review of the largest agencies was completed in July of 1998. Of the 40 agencies reviewed in this Phase I, 34 agencies received results where no urgent action was required. Six agencies received results indicating attention was needed.

In most cases, the needs identified were for more detailed documentation or additional resources. Most of these needs have been either partially or completely met as of this report date. A follow-up review of the six agencies identified in Phase I was conducted in December 1998.

Phase II of the review focused on smaller state agencies and was completed in November 1998. No agencies received unsatisfactory reviews.

An overall resource deficit of approximately \$15 million was identified from Phases I and II. Further refinement has indicated that the unidentified resources are closer to \$13.5 million. A supplemental appropriation was requested in January 1999 and later received to fund such projected deficits.

Details of the findings for any specific agency are available from the DIS, Year 2000 Program Office at 501-682-4976 or at One Capitol Mall, Little Rock, Arkansas. The findings will be maintained current, throughout 1999 with periodic reports from agencies. As needed, repeat reviews will be conducted.

Many of the State's most mission critical systems are maintained by DIS. As of the date of this report those systems are approximately 98% complete for year 2000 remediation and validation/testing. Specific details of individual applications may be obtained from the Year 2000 Program Office.

In June 1999, DIS began performing an Independent Verification and Validation (IV & V) of all DIS supported mainframe systems. IV & V examined remediated code to locate potential date-related errors that were previously overlooked. DIS developers completed the recommended code modifications in September 1999.

In June 1998, an independent review of the readiness (validation) of the publicly supported colleges and universities began. This review was completed in January 1999. As of June 30, 1998, the publicly supported colleges and universities are approximately 60% complete for year 2000 remediation and validation/testing. Since that time, no centralized review of the colleges and universities has occurred.

Because of the size and complexity of the year 2000 problem, certain failures can be expected. To mitigate this risk, DIS has issued a policy that no leave time will be authorized for employees from December 1, 1999 to January 31, 2000. This will ensure that maximum resources can be directed at residual problems. Also, contingency planning for unanticipated failures of mission-critical applications will be required. With these measures, it is expected that any residual failures can be repaired or workarounds can be utilized to prevent any adverse impact to State operation.

Component Units -

ASLA has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting ASLA operations. ASLA has addressed all year 2000 issues related to its financial, payroll, and human resource systems by implementing and testing upgraded compliant versions of the existing systems during 1999.

Because third party failures could have a material impact on ASLA's ability to conduct business, management has been corresponding with all critical business partners to verify that plans are being developed to address the year 2000 issue. Such correspondence has been evaluated and assessed by ASLA and is being categorized based upon readiness for the year 2000 issues and prioritized in order of significance.

ADFA began its year 2000 work in mid-1996 with inventory, assessment and project planning work related to its mission-critical systems. The awareness and assessment phases were completed in late 1996 resulting in estimates for resources and training. The Authority determined internal resources would primarily be used to reprogram or replace, test and implement hardware and software changes for year 2000 modifications. Internal resources include both employees of the Authority and resources provided by the State of Arkansas. A budget for external resources, such as outside validation and software upgrades necessary to address the year 2000 issue, was not formally established during the awareness and assessment phases. However, it is estimated less than \$100,000 has been expended from the general fund for external resources related to the year 2000 issue. ADFA does not anticipate any significant expenditures related to year 2000 work after year end through December 31, 1999.

In August 1998 planning began for an independent review of the readiness (validation) of ADFA for the year 2000 issue. This review was completed in June 1999 with no urgent action required. The primary suggestion resulting from this review was for ADFA to identify and include in its contingency plan manual processes for its most mission critical business functions should ADFA's network not be functional.

ADFA continues to monitor third party vendors for indication of year 2000 readiness. As of June 30, 1999, ADFA estimated over 80% of ADFA's third party vendors were compliant with regard to year 2000 readiness. In addition, as of June 30, 1999, ADFA continues researching and downloading applicable service packs on workstations as necessary, as a further prevention of any possible minimal interruptions.

Because of the size and complexity of the year 2000 problem, certain failures can be expected. To mitigate this risk, certain members of ADFA's staff will be required to (1) pre-test all mission-critical software packages November 30, 1999, in a mirrored ADFA network environment (simulated lab) operating in the first two months of the year 2000, and (2) to test critical software packages remotely the first three days of the year 2000, to ensure all mission critical software is functioning prior to the first business day of the year 2000. If remote access is unavailable, these staff members will report to ADFA's office to complete the testing. If there is power or system failure, these tests will be performed upon restoration of service.